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*President's
Address*

MASSEY - HARRIS COMPANY, LIMITED

James S. Duncan, C.M.G.

CHAIRMAN OF THE BOARD AND PRESIDENT

Address to the

Shareholders

Annual Meeting

Massey-Harris Company, Limited

February 20th, 1953

To Our Shareholders

1952 Brought Changes in Buying Trends and Economic Conditions

Our operations for the year ended October 31st, 1952, are disclosed in detail in our annual report. I propose, therefore, to comment only on the more important figures, and to add some general observations, which have a bearing on the twelve months under review and on the outlook for the future.

During the past year, there have been many changes in world-wide economic conditions. To a close observer of the international scene, it is increasingly evident that we have been witnessing the close of a postwar period, marked by strong inflationary pressures and characterized by vast efforts to restore economic stability and normalcy among the countries of the free world. Marshall Aid, generous and farsighted, and other related policies, have achieved considerable successes, but their limitations are now apparent. In both dollar and sterling areas, in whose economic inter-relationships our Company has so vital an interest, new approaches and more positive policies are being shaped. It is significant and heartening that on both sides of the Atlantic, a common objective is gradually emerging, namely, that of placing the emphasis upon trade rather than aid.

The long prevailing inflationary trend has given way to deflationary policies; cautious buying has replaced unbridled purchasing. There can be no doubt but that the new trend is sound, but inevitably its initial impact has resulted in declining prices for certain primary commodities, notably farm products, and some contraction in consumer demand.

During 1952, therefore, we came to the end of a period in which demand largely exceeded supply. It was a year of transition, with consequent under-currents of adjustment, whose effects were more pronounced in areas where adverse factors of a local nature were also present.

World-Wide Sales Increased 16.34% Over 1951

Turning to the results of our operations in 1952, total North American sales (including defence work) amounted to \$224,806,540 and were greater than the previous year by 13.9%. World-wide sales on the same basis

reached a new high of \$293,023,047, a 16.34% increase over 1951. Excluding defence work, world-wide implement sales of \$248,923,796 came within 1.17% of the Company's record established last year. Sales of the North American organization amounted to \$180,707,289, a decline of 8.44% from those of last year. Having in mind the deflationary factors previously referred to and the highly competitive conditions under which we have been operating, these results indicate the strength of our sales force and the excellent design and quality of the Company's products, which occupy a strong and leading position in agricultural markets throughout the world.

Sales in Canada Exceeded all Previous Records

In Western Canada in the spring of 1952, combines harvested 200 million bushels of wheat and other grains, which, owing to the early snows in the fall of 1951, had remained in the fields throughout the winter. Under former methods of harvesting, most of this crop would have been lost. Within a few months, combines were again in action, harvesting 660 million bushels of wheat and 630 million bushels of coarse grains.

Thus, in Western Canada, a combination of bad weather late in 1951 and exceptionally favorable growing conditions in 1952, resulted in the miracle of two harvests in one year, and sales in Canada reached, in consequence, an all-time high, being considerably in excess of the record established in 1951.

On the other hand, in the United States, where the impact of widespread drought was pronounced and some slackening of demand has occurred, due to declining prices for farm products and increasing cost of farm operation, sales were down from the high point established in 1951.

Export sales from North America were seriously affected in many territories through dollar shortages and import restrictions.

Great Increase in Sales by Overseas Factories

In countries served by our overseas factories, sales, although impeded by import quotas and other restrictions, have reached considerable proportions, and have shown a very substantial increase over the preceding year. I should like to draw your attention to this situation, which has so amply justified our decision to build up and expand factories overseas, especially in the United Kingdom and France. The markets secured could not possibly have been supplied from our North American factories, because of dollar shortage and import quotas. As a result, in spite of continuing import restrictions, in each of the past three years from these factories, we have greatly increased our sales volume, the increase for 1952 over 1951 being

almost 29%. The drop in our export sales from North America, however, brought the increase in our overall sales volume in territories outside North America to 9.11%.

Lower Net Profits Result from Increased Costs

Turning to the operations covered in the consolidated balance sheet and profit and loss statement, the net profit was \$12,493,600 after provision of \$12,550,000 for income taxes. After appropriation for inventory reserve, the balance carried to unappropriated earnings retained for use in the business was \$10,868,600, against \$13,103,721 last year.

The reduction in net profit reflects the impact of many adverse factors, of which the most important were: the smaller profit margin on defence work; the higher costs of material and labour; reduced return on the products of our Canadian factories sold in the United States, due to the Canadian Dollar changing from a discount to a substantial premium; and finally, the purchase of raw material at premium prices, owing to our inability to secure adequate supplies from regular sources.

Implement Prices Kept at Relatively Low Level

The increased costs of material and labour have been reflected only in small measure in selling prices, particularly in the United States, where prices have been controlled by Government regulations. Due to the narrow margins on which the farm equipment industry operates, the net profit is extremely sensitive to even minor cost increases, which cannot be reflected in selling prices.

If you will look carefully at the figures and percentages shown on the "Price Increases Chart" in the annual report, you will note the low level at which implement prices have been kept in relation to industry as a whole. This has only been made possible through a high volume of sales, with its attendant lower ratio of selling expense, and by the greatly increased manufacturing efficiency made possible by the investment of a substantial portion of the Company's earnings, and much of the proceeds of long-term borrowings in our factory modernization programme.

New Plants and Branches Added in 1952

Our growth needs have continued throughout the past year. Further work completed as part of our long-term modernization programme has included: In Toronto, a new machine shop, and a new building for the Electro-Forge Division; three new branch premises, and an additional building for defence production in the United States; two new branch premises in South Africa,

and one in Northern Rhodesia; further expansion and development in our overseas factories at Kilmarnock and Marquette, as well as many new machine tools in our North American plants.

Defence Contracts Increased

Defence production during 1952 amounted to \$44,099,251. This was chiefly for a self-propelled howitzer (tank), 155 millimetre, made at our Company's plant in Racine for the United States Army. In May, 1952, additional contracts were received, which almost trebled the original \$55,000,000 order, and which should carry this programme well into 1954.

Defence production has also been undertaken in Canada. The Company has been engaged in special engineering development work on a management basis for the Government. This important project is being considerably expanded and will necessitate for its operation an increase in the number of highly qualified technical staff currently assigned to defence work.

At the Verity factory in Brantford, work is now proceeding on a contract for the production of mortar bombs, the quantity of which has recently been more than doubled.

Engineering and Research Intensified in Line with Growth and Diversity of Farm Mechanization

There is a growing need in industry for first-class research and engineering. It is our firm conviction that the scientific approach—research engineering as a complement to development and product engineering—must be an integral part of all our operations. The importance we attach to research engineering is reflected in the high level of scientific background of the research staff, university graduates in the various phases of engineering, mathematics and physics. These men have wide contacts with experienced specialists and the work being done in outside research centres. The international character of this staff, which includes Canadians, Japanese, Chinese, Germans, Poles, Czechs, Austrians, Dutch and Swiss is remarkable.

Probably the most notable characteristic of the farm implement of today is the radical change it has undergone in mechanical efficiency, ease of operation and labour-saving features. There has been a remarkable growth in the diversity of mechanized equipment specially designed to perform specific jobs on the farm, some of which previously had been considered essentially hand operations, and others resulting from the adoption of new methods arising from recent agricultural research. Today, the urge to make the worker's efforts in the factory more productive is paralleled on the farm.

Moreover, in response to the farmer's insistence on greater ease and

convenience in the operation of his machines, we have had to develop many new, and sometimes costly, devices for this purpose. But, nevertheless, like the self-starter on a car, it costs the purchaser money, but he would not be without it.

In keeping with this trend and to assure retention of the Company's leadership under more competitive conditions, our Engineering Department has broadened the scope of its activity during the past year, with the result that more new machines were brought out than at any previous time.

Throughout the year, the many problems created by changing conditions were successfully met by our personnel in characteristic spirit. I express grateful appreciation for the loyalty and efficiency of the Company's employees in all parts of the world.

Weather and Crop Conditions will be Most Important Factors in Sales Programme

Summing up, I refer again to the deflationary trend. It will probably slow up purchases by farmers, but in the long run, policies which hold inflation in check will work out to the advantage of our Company and our shareholders.

The effects which the decline in the prices of certain farm products, the rising cost of farm operation, and the lack of moisture in large areas in the United States may have on the implement industry as a whole in 1953 should not be overlooked.

Now that there is no longer a shortage of farm equipment, weather and the consequent crop conditions will continue to be the most important factors in any implement company's sales programme, and it is evident that the traditional seasonal buying pattern is returning.

Confidence in Future Based upon Unchanged Fundamental Factors

In closing, I would emphasize the following considerations: The fundamental factors which created the sustained demand for farm equipment still remain—a prosperous and not over-expanded agriculture; a greater demand for foodstuffs and for ever higher standards of living at home and abroad; an ever-increasing shortage of farm labour; and an ever-growing recognition that increased production per man, which is the answer to greater farm profits, can only be achieved through modern farm mechanization.

My confidence remains steadfast in the long-term role, which this great basic industry will be called upon to play in increasing measure, and I feel that your Company's position is such that it can take an even more prominent place in the industry's forward march.

